DIRECT TESTIMONY AND EXHIBIT OF

WILLIE J. MORGAN, P.E.

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-319-E

IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC FOR ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS AND REQUEST FOR AN ACCOUNTING ORDER

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Willie J. Morgan and my business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as the Deputy Director of the Utility Rates Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of South Carolina in 1985 and a Master of Arts Degree in Management from Webster University in 2000. I am a licensed Professional Engineer registered in the State of South Carolina. I was employed by the South Carolina Department of Health and Environmental Control ("DHEC") as an Environmental Engineer Associate. Later, I was promoted to the position of Permitting Liaison where I assisted industries and the public with environmental permitting requirements in the State of South Carolina. This assistance included providing information about air quality, solid and hazardous waste management, and water and wastewater management requirements. I was employed by DHEC for nineteen (19) years. In October 2004, I joined ORS as the Program Manager for the Water and Wastewater Department and was promoted to Deputy Director in 2015. Collectively, I have over thirty-three (33) years of regulatory compliance experience providing assistance and oversight for various types of regulated utilities.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. Yes. I have testified on numerous occasions before the Commission regarding hearings concerning general rate cases and other proceedings.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as follows:

> The concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address certain areas of the ORS's examination of Duke Energy Carolinas, LLC's ("Company" or "DEC") application for adjustments in its electric rate schedules and tariffs and request for an accounting order under Docket No. 2018-319-E ("Application"). My testimony will specifically address the following adjustments to:

1) Amortize deferred cost balance related to the Carolinas West Control Center;
2) Amortize deferred cost balance related to the W.S. Lee Combined Cycle Plant;
3) Adjust reserve for end of life nuclear costs;
4) Adjust for Lee Nuclear amortization;

5) Amortize deferred cost balance related to SC Advanced Metering Infrastructure technology ("AMI"); and
6) Normalize for storm costs.

These adjustments, more fully discussed below, were provided to the ORS Audit Department and are shown in Audit Exhibit GS-2 of ORS witness Smith.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO AMORTIZE THE DEFERRED COST BALANCE RELATED TO THE CAROLINAS WEST CONTROL CENTER.

A. Commission Order No. 2018-552 granted the Company's petition for an accounting order to defer certain capital and operating costs incurred since January 1, 2018 associated with the Company's Carolinas West Control Center. The Company deferred approximately $5 million for certain capital costs incurred by the addition of the Carolinas West Control Center. Among other things, DEC requests to amortize the deferral balance over three (3) years.

ORS recommends an amortization period of thirty (30) years, which is the service life of the Carolinas West Control Center. This recommendation is reflected in ORS witness Smith's Exhibit GS-2, Adjustment #7.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO AMORTIZE THE DEFERRED COST BALANCE RELATED TO THE W.S. LEE COMBINED CYCLE PLANT.

A. Commission Order No. 2018-552 approved an accounting order which permitted DEC to defer certain capital and operating costs incurred for the construction of its W.S. Lee combined cycle plant in Anderson County. Company Adjustment #13 amortizes these deferred amounts over three (3) years and includes a return on the unamortized deferral balances.

ORS recommends the amortization of these costs over the remaining service life of the W.S. Lee combined cycle plant, which is thirty-nine (39) years. This recommendation is reflected in ORS witness Smith's Exhibit GS-2, Adjustment #13.

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL TO ESTABLISH A RESERVE FOR END OF LIFE NUCLEAR COSTS.

A. The Company proposes to adjust depreciation and amortization expenses to establish a reserve for end of life nuclear costs not captured in its decommissioning studies. These costs include, but are not limited to, estimates for end of life nuclear fuel and parts inventory that are not currently known and measurable. The Company proposes to annually accrue approximately $6.975 million from South Carolina ratepayers to be placed in this reserve fund until its nuclear plants are decommissioned. The current operating licenses for the Company's nuclear units, issued by the Nuclear Regulatory Commission ("NRC"), will expire between 2033 and 2043. Additionally, the Company can file for an additional license extension for its nuclear plants. Information provided by DEC for this rate case shows that the company [redacted]. See Confidential Exhibit WJM-1.

ORS recommends the Commission deny the Company's request of approximately $6.975 million for a reserve fund for its end of life nuclear costs. The reserve fund includes estimates for end of life nuclear fuel and parts inventory that are not currently known and measurable. The date of retirement of the nuclear units is uncertain. It is not equitable for today's customers of DEC to pay for costs related to nuclear plant retirements that may or may not occur in the next fourteen years. The ORS adjustment to remove the requested reserve fund is reflected in ORS witness Smith's Exhibit GS-2 as Adjustment #15.

Q. HAS ORS REVIEWED THE PRE-CONSTRUCTION COSTS ASSOCIATED WITH THE LEE NUCLEAR PROJECT?

A. Yes. ORS reviewed DEC's testimony requesting recovery of the pre-construction costs associated with the cancelled Lee Nuclear Project. ORS also reviewed the previous orders issued by the Commission and correspondence submitted to the Commission by DEC, including quarterly reports. Additionally, ORS reviewed the documents considered by the North Carolina Utilities Commission ("NCUC") regarding DEC's request to recover its North Carolina allocable share of costs associated with the Lee Nuclear Project.

ORS finds that DEC's decision to incur costs to obtain the Combined Operating License and support preconstruction activities were reasonable – based upon the information available to DEC at that time the costs were incurred. However, ORS does offer a recommendation which adjusts DEC's request.

Q. WHAT IS ORS'S RECOMMENDATION REGARDING PRE-CONSTRUCTION COSTS ASSOCIATED WITH THE LEE NUCLEAR PROJECT?

A. DEC is seeking Commission approval to recover approximately $125 million (South Carolina retail) over twelve years. The associated annual revenue requirement requested in this proceeding is $20 million. The total (system) estimated balance for the Lee Nuclear Project is approximately $559 million forecasted to May 31, 2019. This total estimated balance includes Allowance for Funds Used During Construction through December 31, 2017.

ORS recommends the Commission disallow DEC's recovery of $129,443 (South Carolina retail) related to pre-construction costs for the Visitors Center associated with the Lee Nuclear Project. The Visitors Center is not constructed. The expenditures related to the Visitors Center were not necessary to support DEC's process to obtain of a Combined Operating License from the Nuclear Regulatory Commission for the Lee Nuclear Project. Except for the costs related to the Visitors Center, ORS recommends the Commission approve the pre-construction cost of the Lee Nuclear Project which total $124,601,000 (South Carolina retail) without a return on the investment.

Q. WHY DOES ORS RECOMMEND THE COMMISSION NOT ALLOW A RETURN ON THESE PRE-CONSTRUCTION COSTS?

A. Due to its cancellation, the Lee Nuclear Project will neither be used and useful nor provide electricity to DEC's customers; therefore, the Company's investment does not meet the criteria to be placed in "plant in service." Likewise, the investment is not properly categorized as "property held for future use" or "construction work in progress." Thus, the investment does not belong in rate base and is not entitled to a return. It is not fair or reasonable for shareholders to earn a return on a cancelled nuclear project when the customers receive no benefit yet are required to pay for this cancelled project. ORS recommends the risks of the Lee Nuclear Project be equitably shared between the DEC shareholders and its customers through the disallowance of a return on debt and equity.

Q. DOES ORS'S RECOMMENDATION TO DISALLOW A RETURN ON THE LEE NUCLEAR PROJECT REFLECT PREVIOUS COMMISSION DECISIONS?

A. Yes. The Commission has a practice of balancing the interest of the customers and DEC by approving cost recovery yet disallowing a return on debt and equity. Specifically, this Commission made a similar decision regarding the cancellation of other nuclear construction projects in Order No. 83-92 in Docket No 1982-50-E. The Commission found,

> The Commission Staff, as to Perkins and Cherokee Units 2 & 3, and the consumer advocate, proposed a sharing of the costs associated with these units between the company and ratepayers by recommending an amortization without rate base coverage.
>
> The Perkins Plant nor Cherokee Units 2 and 3 have been or will be used and useful in providing electric service to the Company's customers. The Commission is of the opinion that to require rate payers to pay a return on this investment is not reasonable. The inclusion of the unamortized balances in the rate base would be inconsistent with the ratemaking principle that the Company is entitled to earn a return on the investment used and useful in providing service to the ratepayers. Therefore, the Commission denies the Company's proposal to include the unamortized amounts associated with the Perkins Nuclear Station and the Cherokee Units 2 and 3 in rate base.

Q. ARE THERE OTHER SIMILAR COMMISSION DECISIONS?

A. Yes. The Commission has issued similar decisions denying a return on debt and equity related to abandoned utility projects. I have listed two Commission orders to identify examples:

1) Commission Order No. 82-284, Docket No. 81-163-E
2) Commission Order No. 83-583, Docket No. 82-328-E

Q. DID THE NCUC ALLOW RECOVERY OF THE VISITORS CENTER, AS WELL AS, A RETURN ON THE CANCELLED LEE NUCLEAR PROJECT?

A. No. In its 2018 ruling, the NCUC denied DEC's request for cost recovery of the Visitors Center as well as, a return on the Lee Nuclear Project. NCUC provided the following in its Order under Docket No. E-7, Sub 1146:

> 19. That DEC's request to recover its project development costs relating to the Lee Nuclear Project is granted, with the exception of costs relating to the Visitors Center…
>
> 20. …and that the Company shall not earn a return on the unamortized balance.[1]

Q. PLEASE EXPLAIN THE ADJUSTMENT TO AMORTIZE THE DEFERRED COST BALANCE RELATED TO SC AMI.

A. Commission Order No. 2016-489 granted the Company's petition for an accounting order to defer certain capital and operating costs associated with the Company's roll out of AMI. The Company proposes to adjust depreciation expense and income taxes for the amortization of deferred costs related to SC AMI. The accounting Order issued by the Commission allowed DEC to defer into a regulatory asset until this rate case: 1) the financial effects of the depreciation expense of the AMI meter deployment to include the carrying costs on the investment at its weighted average cost of capital; and 2) to establish a regulatory asset for the book value of non-AMI meters in the amount of $31 million through which the Company is allowed to continue to depreciate existing meters under current schedules approved by the Commission.

ORS recommends the Company be allowed to amortize these costs over fifteen (15) years, which is the service life of the AMI meters. This recommendation is reflected in ORS witness Smith's Exhibit GS-2, Adjustment #19.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO NORMALIZE STORM COSTS.

A. Company Adjustment #20 normalizes storm restoration expenses in the Test Year to a 10-year average, resulting in an increase in test year expenses of approximately $7 million for South Carolina retail. Due to fluctuations in annual storm restoration costs,

[1] NCUC, Order, Docket No. E-7, SUB 1146, dated 6/22/2018, page 330

ORS recommends eliminating the expenses in the highest and lowest years and to use an eight-year average expense level. The ORS normalization adjustment is reflected in ORS witness Smith's Exhibit GS-2, Adjustment #20.

Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, become available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.